British Columbia Ferry Corporation

Special Review of allegations made in the
complainant's resignation letter,
dated October 13, 2000

Executive Summary

December 7, 2000

Prepared by KPMG LLP
Confidential

1.0 EXECUTIVE SUMMARY

The complainant, a former Engineering Superintendent with British Columbia Ferry Corporation ("the Corporation") resigned on October 13, 2000. In his resignation letter he made several allegations against his supervisor, Mr. Peter Hughes, Assistant Vice President, Inter-Island and Northern Services and Mr. Steve Anderson (Planning Officer). KPMG LLP was retained to undertake a special review of these allegations.

1.1 Allegations of financial impropriety

Two significant allegations of financial impropriety were made by the complainant in his resignation letter, as follows:

"You ordered me to hide $500,000.00 last December in the Northern Services engineering budget. You then threatened me with my job when I could no longer hide the money and my variance report fluctuated."

"You also ordered Steve Anderson of the planning department at a meeting in the boardroom to revise the business case and hide the additional $2,000,000.00 it will cost to run the Queen of Burnaby on Route 17. Are not these real examples of fraud?"

We found no evidence to substantiate these allegations against Mr. Hughes and Mr. Anderson. During our discussions, the complainant said he regretted using the term "fraud" in the allegations made in his resignation letter. Our findings with respect to these allegations are summarized as follows:

1.1.1 Northern Services engineering budget

- The complainant alleges he was ordered to hide $0.5 million in December, 1999, in the Northern Services engineering budget, and was threatened with losing his job when he could no longer hide the money. He now claims this event took place in February, 2000.
- At the end of February, 2000, there was a favourable variance of $0.68 million on the Queen of Prince Rupert, and the complainant claims Mr. Hughes ordered him to artificially inflate his estimate of costs to be incurred before the fiscal year end (March 31, 2000) by $0.5 million. The complainant therefore claims he projected a year end favourable variance of $0.15 million, when his forecast would otherwise have been approximately $0.68 million.

- Mr. Hughes told us he was aware there would be significant winter maintenance expenditure in excess of budget on the Queen of Prince Rupert in the final month of the fiscal year. He therefore did not disagree with the $0.15 million forecast, but denies asking the complainant to hide anything and threatening the complainant with losing his job if he did not use this as his forecast. Significant expenditure was incurred in March, 2000, and the actual variance from budget at the year end was only $0.21 million.
- The complainant acknowledged Mr. Hughes would have been within his right to ask the complainant to reduce his forecast variance by $0.5 million.
- Mr. Hughes also told us he believes the $0.5 million allegation related to a meeting in December, 1999, at which the complainant had wanted to "offset" a favourable variance of approximately $0.5 million in the Northern Services budget against an unfavourable variance of a similar amount in the Inter Island Services (North) budget.

1.1.2 Costs of operating the Queen of Burnaby on Route 17

- The complainant alleges that Mr. Hughes ordered Mr. Anderson to revise a business case and hide an additional $2 million of costs it would take to operate the Queen of Burnaby on Route 17 compared with the Queen of Sidney.
- The original business case prepared for discussion at the meeting at which this incident is alleged to have taken place, shows the annual costs of running the Queen of Burnaby would be greater than the Queen of Sidney, and the recommendation was to retain the Queen of Sidney on Route 17.
- However, it was decided that maintaining the Queen of Sidney would result in an unacceptable risk of lack of continuity of service, in view of the age of this vessel. The revised business case, but not the financial analysis, was therefore changed to recommend the replacement of the Queen of Sidney with the Queen of Burnaby.
- The financial analysis in the revised business case indicated that this was not the favoured option from a financial perspective, but that the continuity of service criterion prevailed.
- We found no evidence of $2 million of extra costs which may be incurred to run the Queen of Burnaby on Route 17 being hidden in the revised business case.
- None of the other attendees at the meeting, including Mr. Anderson, recall Mr. Hughes ordering Mr. Anderson to hide $2 million.

1.2 Other allegations made by the complainant

1.2.1 Number of vessels for which the complainant was responsible

- The complainant alleges his workload was unreasonable compared with the other engineering superintendents and international standards for marine engineering superintendents.
- Mr. Hughes and others within the Corporation agreed the complainant was responsible for a greater number of vessels than the other engineering superintendents. However, unlike the other engineering superintendents, the complainant had a part-time assistant, and was told by Mr. Hughes that funding would be provided for further assistance.

1.2.2 Writing of Routine Correspondence

- The complainant alleges he was censured for writing routine correspondence.
- Following a meeting with Mr. Hughes on August 15, 2000, the complainant wrote four letters and one email message apologizing to various personnel of the Corporation for the tone and content of previous correspondence he wrote to them.

1.2.3 Corporate Policy for Support of Home Computers

- The complainant alleges he was accused by Mr. Hughes of contravening corporate policy regarding support for home computers.
- The complainant appears to have contravened corporate policy in authorizing another employee to purchase software for his home computer. However, this authorization was given on the basis of an apparent misunderstanding of the corporate policy by the complainant, and the software was never purchased.

1.2.4 Budgeting for FTEs

- The complainant alleges Mr. Hughes ordered him to disobey a directive from the Chief Executive Officer regarding budgeting for additional FTEs (full time equivalents).
- Mr. Hughes denies ordering the complainant to disobey the directive.

1.2.5 Accusation of fraud against the complainant's administrative assistant

- The complainant alleges Mr. Hughes accused his administrative assistant of fraud for doing her job in accordance with her job description.
- Mr. Hughes said the complainant's administrative assistant (the complainant's wife) was sending out correspondence from the complainant using her computer and the complainant's signature block (the complainant did not use

a computer). Mr. Hughes wrote to the complainant stating that this practice amounted to "fraud" and must cease.

- Mr. Hughes told us that his use of the word "fraud" was inappropriate.

In conducting our review, KPMG LLP has relied upon information provided to us by the Corporation and other sources. We have not conducted an audit and cannot express an opinion as to the accuracy or completeness of this information.

Our report is intended solely for use by the Corporation and is not intended for general use, circulation or publication. KPMG LLP will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses suffered by the Corporation or by anyone else as a result of the circulation, publication, reproduction, use of or reliance upon our report.

Comments in the report are not, and should not be interpreted as, legal advice or opinion.